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**Rural Tourism: Development, Public Intervention
And Lessons from the Israeli Experience**

by

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Rural Tourism: Development, Public Intervention and Lessons from the Israeli Experience

1. Introduction

In the last decades, western economies have experienced major structural changes in their rural areas as a result of globalization, and political, social and technological changes. Among these changes, the development of rural tourism has undoubtedly played an important role. Although people have recreated in the countryside for centuries, it was only after the Second World War that the relationship between rural settings and leisure activities engaged therein changed significantly (Clope, 1993). Recreation and tourism in many rural areas have undergone a transformation from minor economic activities to dominant sector of the rural economy. Today, with an annual growth rate of 6% in Europe and North America, rural tourism is contributing more and more to rural economies. In England, for instance, the annual earnings from rural tourism amount to \$14 billion and it provides 380,000 jobs (Arnold, 2004). In Canada, it accounts for 3% of the rural labor force (Bollman, 2005) and in the US, during the years 2002-4, a reported 90 million adults took trips to rural destinations (Brown, 2005). In the northern region of Israel, 10% of the rural households are engaged in rural tourism (Tchetchik, 2006). Figures for other countries reveal similar participation rates (Lane, 1994). To demonstrate the transformation that rural regions have undergone, one can look at the results of the Foot & Mouth epidemic in the UK in 2001. It was found that the losses to rural economies were mostly caused by losses in rural tourism, and moreover, farming emerged as the source of the problem (The Observer, March 11, 2001). The development of rural tourism is well reflected in the academic literature through many disciplines, including: geography, sociology, economics, and environmental studies. Most of these studies deal with the different benefits derived from rural tourism, as well as with the potential for negative externalities that may occur. In general, the beneficiaries from rural tourism are: (1) The rural/agricultural sector, as rural tourism is an alternative/complementary source of income and jobs. In fact, the entire local

economy benefits from rural tourism, as the visitors dine at local restaurants, buy food, fill their cars with gas, shop, etc. (2) The visitors/consumers who enjoy the diversity of rural tourism facilities and activities. (3) Society as a whole, which benefits from the preservation of environmental quality, fresh air, green landscapes, and open spaces, as well as from the creation of more opportunities for communication between different sectors in society.

The need for government intervention becomes apparent when one takes into account these benefits as well as the potential for negative externalities associated with rural tourism (such as heavy traffic, waste, overcrowding and conflicts between the host community and visitors). Indeed, the development of rural tourism has been accompanied by different policy and support measures. For example, currently, the EU is proposing to budget over US \$17 billion from 2007 to 2013 in support of tourism-related projects in rural areas.

The aims of this chapter are twofold: first, to provide a comprehensive review of the academic literature that has accumulated in the last 20 years or so, focusing on the following issues: (1) explaining the rapid development of rural tourism by examining both demand and supply factors, (2) public policy in rural tourism in North America and Europe, and finally (3) studying the unique relationships between rural tourism and agriculture. The second aim is to give a detailed description of the rural accommodations market in Israel and present the results of several related studies (Fleischer and Tchetchik, 2005; Tchetchik, 2006; Tchetchik, Fleischer and Finkelshtain, 2006).

2. Comprehensive Review of the Literature

2.1 Definition and Description

There is no commonly accepted definition of rural tourism, mainly since rurality can represent the geographic, as well as social and cultural aspects of an area; more than that, different countries have different criteria for defining an area as rural. Consequently, rural tourism has a plethora of definitions, from the very minimalist one: “any tourism activity that takes place in rural areas” (Commission of the European Communities, 1986), to more elaborate ones such as the definition by Lane (1994). Lane suggested that rural tourism is tourism located in rural areas, i.e. that are

rural in scale, character and function, reflecting the unique patterns of the rural environment, economy, history and location. According to Lane, any activity that is not an integral part of the rural fabric and does not employ local resources cannot be considered rural tourism.

The rural tourism industry can be categorized by its products, such as Farm Tourism, Agritourism, Green Tourism and Ecotourism, each relating to a different aspect of the rural setting. Another categorization of rural tourism is based on the rural resources utilized in the course of the activity. An example is activities related to environmental quality. In Europe and North America, groups go to the countryside to take part in tree planting, nature-reserve fencing, etc. Some authors include outdoor recreation in national parks and wilderness areas in the definition of rural tourism (Ladki, 1993 and Owens, 1984), others exclude them (Dernoi, 1991). Nevertheless, Lane's 'typology' of rural tourism is referred to in all subsequent key English-language publications and is widely accepted at an international level.

Although rural tourism includes a wide range of products and activities, the main emphasis is on rural accommodations. The spectrum of the latter ranges from campgrounds, self-catering, and bed and breakfasts (B&B), to full-catering establishments, including hotels and motels, in rural communities. Rural accommodations businesses differ from traditional commercial tourism businesses in many aspects. The latter, composed of many rooms/units, are extensive in capital, and they usually rely on hired labor. Rural accommodations are usually small, based on family labor, include very few rooms/units, and do not require large capital investment. In the US, for example, according to the Small Business Administration, almost 99% of all tourism-related establishments in rural areas qualify as small businesses (Galston and Baehler, 1995).

2.2 The Development of Rural Tourism

Demand Factors

Although people were recreating in the countryside even before the second half of the 19th century, this activity was only available to a minority of landlords for hunting, horse-riding, etc. The development of demand for rural tourism has been the result of three major factors: technological progress, increases in income and

increases in leisure time. Such technological progress took place during the 19th century with the laying of railroad tracks in Europe which enabled the growth of the entire tourism industry. A further development included elevators and cable cars, which turned many regions into popular rural tourism destinations, for example, Bernese Oberland in Switzerland, which attracts more than half a million visitors each summer (Flint, 1992).

In the US, while the early settlers avoided the wilderness of the west, during the 19th century those areas began to be perceived as recreation sources (Shaw and Williams, 1994).

However, it was only during the 20th century that rural tourism became widespread. Massive road paving in Europe, accompanied by increased private car ownership, especially after 1945, dramatically decreased traveling costs. These factors, together with increased available income and leisure, accelerated the demand for rural tourism.

In the last two decades, despite the emergence of new tourism products that compete directly with rural tourism, such as inland all-weather resorts that have become very popular in northern Europe, the demand for rural tourism has generally been sustained. Contributing to this are: (1) the move toward short-break holidays, these breaks are taken mostly in the countryside; (2) the evolution of the 'heritage industry' which perceives rural areas as the genuine representatives of national heritage (Hewison, 1987); (3) the notion that rural areas are beneficial to health, offering fresher air, cleaner water and the opportunity for outdoor recreation; (4) improvement in facilities aimed at recreation in nature such as four-wheel-drive vehicles and mountain bikes; (5) easier accessibility to rural areas due to improved transport and communication, and the removal of political and economic barriers.

Supply Factors

Huge technological advances in farming, which took place in the 20th century in developed economies, led to production surpluses of basic food (Bowler, 1985; Healey and Ilbery, 1985; Windhorst, 1989). A vicious circle was created, in which a cost-price squeeze in agricultural output pushed farmers to seek scale economies, through farm enlargement, specialization and intensification. The result was more production surpluses and further price decreases. Between 1987 and 1997,

employment in agriculture was falling across the EU; one out of every three farming jobs was lost in Italy, Spain, Portugal and France (Bowler, 1985). The declining terms of trade in agriculture and the increase in the ratio of urban to farming incomes resulted in rapid urbanization. Thus, from a place where most of the population lived and derived its livelihood from farming, the countryside became, in a relatively short time, a place of low population density¹ and overproduction of agricultural output.

The EU reacted to these changes by a complete change in the development strategies and policies. It shifted its policy focus from encouraging agricultural production to restraining it and encouraging rural development instead. Economic diversification became the most dominant policy strategy and in this context, rural tourism, and specifically farm tourism, became an important element² (Ilbery et al., 1998).

Farm Tourism

Farm tourism is not a new phenomenon: farms in Austria and other countries have been hosting tourists for over a hundred years (Frater, 1982). In recent years, however, farm tourism in Europe has experienced enormous growth accompanied by structural change. Today, England, France, Germany and Austria dominate the global farm tourism market with 20,000 to 30,000 enterprises per country (Weaver and Fennel, 1997). Over 23% of the farms in the UK are involved in tourism (Denman 1994a,b). The Ministry of Agriculture, Fisheries and Food has estimated that farm accommodations in England and Wales generate 70 million pounds per annum (MAFF, 1995).

Farm households engage in rural tourism by offering small-scale, high-quality accommodations and/or by developing tourist attractions, such as farm tours, farm festivals and more.

Farm tourism employs mostly idle labor already existing on the farm. Hjalager (1996), who investigated farm tourism in Denmark, found it to be widely accepted practice that wives and the older children are the most active participants in the operation of farm-tourism businesses.

¹ Today rural areas in Europe comprise more than 80% of EU territory and 40% of its population.

² A detailed discussion of public policy in rural tourism is presented in section 2.4.

A comparison of farmers who were not willing to diversify to those who had diversified revealed that the latter run a larger farm business, earn a higher net income, are younger, continue full-time education after school and receive formal agricultural training (Ilbery et al., 1998).

In recent years, from its position as a complementary activity, farm tourism has developed into a sector in its own right. It is a growing industry and many authors forecast a further growth in demand.

2.3 The Impacts of Rural Tourism

The main theme of rural tourism research from the 1960s to the early 1990s was the economic benefit from rural tourism to farms and farmers, as well as the entire agricultural sector (Dernoi), 1983; Evens and Ilbery, 1992 and many others).

Many studies indicate that rural tourism makes an important contribution to the local economy at the level of both the individual farmer and the region as a whole. Vacationers not only lodge and dine in the rural accommodations, they also engage in recreational activities and shop in local stores. Taking into consideration the multiplier effect, the contribution to the local economy extends far beyond the farm household. A study conducted in four rural regions in England showed that on average, 44% of visitors' expenditures remain in the local economy (English Tourist Board, 1991). Other estimates suggest that each 10,000 pounds of tourists' expenditures create 3.5 to 4 direct positions and 0.5 indirect positions (Archer, 1974; Dower, 1980; Smith and Wylde, 1977).

While some authors view rural tourism as a panacea for rural areas, others are more skeptical. Oppermann (1996), who studied rural tourism in Germany, claims that it is hardly a serious second foothold for farm operators. It is, therefore, only a temporary alternative for farmers facing declining profits from agriculture. Oppermann claimed that the time involved in running a rural accommodations business was often underestimated or not considered by operators. Two factors limit the expansion of rural tourism: the first is government regulation that limits construction of residential housing outside residential zones, and the second relates to infrastructure. Specifically, many farms are not connected to the public sewage plant owing to their isolated location. The expansion to more than two accommodation units would require such a connection or the construction of a private sewage plant;

both are very expensive. Other rural operators in this research are mostly restrained by the size of their house or land. Oppermann suggests that state and federal governments will either erase legal barriers to allow the expansion of farm tourism or else quit promoting it as an economic alternative.

Other potential negative effects that may accrue include: cost increase of public services such as waste disposal, resulting from increased demand, the creation of partial/temporary jobs, increases in land prices and even a situation in which local residents are unable to acquire more dwellings in the area, and over dependency of the community on one industry, the success of which is not under the local community's control.

2.4 Public Intervention

The rural tourism industry is vulnerable to market-failure results to a great extent. The massive development of tourist attractions and the large number of visitors can damage or even ruin the same amenities that define the attractiveness of the rural environment. Rural tourism development must therefore maintain a balance between the conflicting aims of conservation and development (Lane, 1994).

Public intervention in rural areas affects the tourism industry either directly or indirectly. Even in the absence of a specific rural tourism policy, government decision-making in such fields as zoning, transportation, communication and other infrastructures, land and water resource management, among others, has implications for rural tourism (Beeton, 1999).

Over the past decades, tourism development has received increasing recognition as a regional and national economic development tool. This has led to various reactions in government policy. Today, government intervention in rural tourism and recreation is widespread. The intervention can regulate, support, or maintain (at times simultaneously because government policies across sectors are not always coordinated or complementary) rural tourism and recreation activities. The actual extent of government intervention in rural tourism varies from country to country according to various political-economic-constitutional systems, and circumstances peculiar to each country and region. Public intervention is employed at all levels of government in: developed nations, the former socialist countries of Eastern Europe, less developed countries (e.g. Kenya, Cuba and Sri Lanka) and the

Pacific region. However, while the goals of rural tourism development, e.g. economic growth and adaptation, employment generation, population retention, and conservation are fairly standard policy goals, the actual policy process by which they are achieved is not.

Europe

In the mid 1980s, the EU changed its Common Policy in Agriculture (CAP) from encouraging production to restraining it. This was the result of overproduction of agricultural commodities, a decline in farm income and environmental problems resulting from intensive agriculture.

In its original form, the CAP was aimed at increasing agricultural production, sustaining a proper standard of living for farmers, stabilizing the markets and ensuring a continuous supply of agricultural output at reasonable prices. These goals were achieved mainly through price mechanisms that ensured the prices paid to farmers for many products. As a result, supply surpluses of several agricultural products were created. By the beginning of the 1990s, supply surpluses of cereals, dairy and poultry products and vegetables were exterminated. Hence, while agriculture's contribution to the EU's GDP and employment had diminished, farmers' income was sustained. In order to halt this vicious cycle, the EU put restrictions on the production of cereal and milk. Subsidies were given to farmers to stop working their land, and to move from intensive to extensive production techniques (Ervin, 1988; Gasson and Potter, 1988; Ilbery, 1990). Since 1992, a large part of the EU's rural land has become available for other uses (Baldock and Beaufoy, 1993).

Populated rural areas are considered a national goal in many countries; therefore, policy measures in most developed countries have expanded their focus from support of agriculture to support of rural development to halt the process of urbanization.

The EU and the OECD recognize the important role played by rural regions in the economy, and in supporting the entire population's welfare. By 1993, the EU had allocated billions of ECU (European Currency Units) mainly to support rural regions. Among the four regional objectives was 5b: facilitating the development and structural adjustment of rural areas. The funding of objective 5b was relevant to rural

tourism, since although it aims at various rural development activities, the main beneficiaries of its finance are tourism projects.

In recent years, the EU has identified tourism as a potential source of new income for rural regions, especially regions that have suffered a decline in agricultural activities. Today, rural tourism is being encouraged and is receiving support through various EU programs (Bates and Wacker, 1996; Slee, Farr and Snowdon, 1997).

The LEADER program (Links Between Actions for the Development of the Rural Economy) for instance, is one of the most interesting rural development plans in Europe (Nitsch and Straaten, 1995). The program was established in 1990 (as LEADER I and later continued as LEADER II), in order to promote an integrated approach to rural development, with a strong emphasis on local involvement. The two LEADER programs funded local action groups: a combination of public and private partners who jointly created a strategy and a set of means for the development of rural areas on a community scale (Jenkins, Hall and Troughton, 1998). Global grants were used to: (1) finance infrastructure to meet tourists' needs, (2) finance the development of buildings and rural sites, (3) promote activities, market studies and measures to extend the tourism season (Wanhill, 1997). The novelty of the LEADER programs was their emphasis on community participation. A project was not eligible for support unless it had a local partner. This was a bottom-up approach for rural development with a strong emphasis on tourism. Out of 217 LEADER regions, tourism was the dominant business plan in 71 of them (Calatrava and Aviles, 1993).

EU Regulation Number 2078/92 officially acknowledged the role of farmers as conservators of the landscape and protectors of natural resources. Accordingly, member countries have assigned acreage-bound subsidies to farmers supplying these services in their land cultivation methods. For example, in Austria, the Market-Relief and Landscape-Compensation Program (MLCP) was established. Farmers who participate in the program choose from a list of landscape-enhancing activities. They receive subsidies according to given scores and scales. The upper bound in 1992 was 225 ECU per hectare.

Similar methods were applied to the UK in 1988 when the Ministry of Agriculture, Fisheries and Food (MAFF) came up with two policy instruments: the Farm Diversification Grant Scheme (FDGS) and the Farm Woodland Scheme (FWS). The FDGS referred specifically to farm-based diversification. It included three kinds of grants: (1) capital grants of up to £35,000 for non-agricultural structural

diversification, (2) feasibility study grants of up to £3,000 for individuals and £10,000 for groups, (3) marketing grants (by the same amount as the feasibility study grants. Eligible enterprises for financial support from the FDGS included: farm-based accommodations, educational ventures and various recreational activities.

Among FWS goals were: the diversion of land from agricultural production to help reduce agricultural surplus; enhancement of the landscape, the creation of new wildlife habitats, the encouragement of recreational use and the expansion of tourist interest; contributions to supporting farm income and rural employment (Ilbery, 1992).

The US and Canada

In the US, as far back as 1980, the federal government (US Department of Agriculture) encouraged farmers to consider farm tourism as a means of supplementing their income and assisted them with the establishment of vacation farm cooperatives. Eleven years later, in a 1991 survey of state-sponsored rural tourism programs, Luloff et al. (1994) found that 30 states had tourism programs specifically targeted to rural areas. The farm bill, passed in 1996, and the reorganization of the Ministry of Agriculture, with an emphasis on rural development, definitely implied an attitude change toward the countryside. With the USDA's reorganization, budgets and authorities of the Agency for Rural Development (USDA/RD) were enhanced. The agency's main duty is improving the quality of life of rural residents, through tight cooperation between private and public sectors. It coordinates grants, loans, and technical help that the Federal government provides. The agency maintains three main programs: rural dwelling services, rural infrastructure services, and rural business services. The latter provides loan guarantees and loan grants for small businesses.

As far as rural tourism is directly concerned, there has been no Federal policy aimed directly at it. The only significant US Federal legislation to address tourism directly was the National Tourism Act of 1973 that established the National Tourism Administration. Rural tourism policy was not mentioned in this act. Even when a national study identified a need for rural tourism policy (Edgell, 1999), neither Congress nor the president offered one. When Congress created the National Rural Tourism Foundation in 1992, it failed to authorize funding for the organization, which has struggled since its inception to meet its mandate. Yet, in

the US, it is domestic tourism that makes rural tourism work. In the absence of any Federal guidance policy, assistance was provided by the states. Today, as many as 30 states employ specific tourism programs for rural areas, 14 other states includes rural tourism in their general tourism strategies, and the other six states have no rural tourism strategy (Luloff et al., 1994). Significant state policy efforts have involved the creation of tourism agencies, divisions, or departments within state agencies. Nevertheless, most of the programs are more promotional and marketing-oriented than leaning towards product development, and do not inherently espouse the broader socio-economic goals.

In Canada, despite the dominance of agricultural policy, there were times when the government developed specific rural emphasis schemes (Freshwater, 1991). These schemes were region-specific and tried to adopt an integrative approach that related labor with finance for infrastructure and aid to businesses. Yet, given the nature of the Canadian federal government, the schemes tended to involve the federal and provincial governments in the partnership. These programs faced big obstacles, most of them stopping shortly after initiation, others being absorbed into bigger plans. According to Freshwater (1991), more farm policy than rural policy is found in Canada and the US because farmers have a strong political lobby, originating from a time when farmers were the majority and from Jefferson's approach, which saw in agriculture the ideal basis for democracy. Farmers have strengthened their power over the years and they claim full custody of rural sector representation. But their strong position also derives from the organizational structure of the US and Canadian governments. In both countries, economic policy tends to be sector-oriented. As a result, interest groups are organized by sectors. In rural areas, besides agriculture and fishing, there is no industry with defined leadership.

Other assistance in the transformation of rural North America to one more heavily dependent on tourism has come from the higher-education establishments in the US and Canada. Through the Cooperative Extension Service, arising from the Morrill Act of 1862 which established the land grant system for state universities in the US, have come manuals, workbooks and other resources to help communities understand and manage tourism for their benefit. Rural tourism development has been a common theme of these publications. Canadian universities have also produced some excellent materials dealing with rural tourism issues.

In summary, rural tourism development in North America is a story of domestic tourism. International visitors, although welcome, will have very little impact on how rural tourism in the US, and to a lesser extent in Canada, develop.

2.5 The Relations Between Agriculture and Rural Tourism

Cox and Fox (1992) described the relations between rural tourism and agriculture as symbiotic: after its introduction, rural tourism makes use of the resources and infrastructures already available in agricultural areas. As it develops, it further extends the infrastructures and creates more resources. The latter become available to the agricultural industry as well.

Yet, within this discussion, a distinction should be made between developed and developing countries. While less important for developed countries, attracting foreign tourists is of great importance for developing countries, which are in dire need of foreign currency. In this case, the flow of local agricultural products to the tourism industry is necessary to prevent a leakage from the economy as result of importing food products that match the visitors' demand. Cox and Fox (1992) recognized three potential sources of such flow: (1) to the tourism businesses, such as hotels, restaurants, etc., (2) directly to the visitors, (3) to the outside environment. The latter happens when tourists' tastes begin to favor local products. This change may lead tourists to demand those products once they return home.

The more the local farmers adjust to the demand of the tourist industry, the less leakage there will be from the economy. Latimer (1985) and Bowen (1998) found that in the Himalayas, farmers have adapted to visitors' demands by producing higher value products, such as pineapple, macadamia nuts, papaya and guava.

Forsyth (1995) researched the adoption of tourism by agricultural communities in northern Thailand. He found that tourism was only adopted by those with available cash and labor, and did not present a viable alternative to agriculture. Most of the poorest households did not have the resources to adopt rural tourism; instead, they intensified land cultivation. His findings are somewhat similar to Evens and Ilbery (1989) in their research of tourism adoption practices in England.

Barke and Newton (1994), in a study in the Alpujarras area near Granada in southern Spain, pointed out some problems caused to the agricultural industry by rural tourism, such as lack of labor and high land prices. Following the

application of the LEADER program, the service sector's contribution to employment rose from 25% in 1982 to 66% in 1992, while agriculture's contribution to employment declined from 70% to 38%, respectively. This might be evidence that rather than helping farmers survive, rural tourism actually accelerated the downturn of agricultural businesses in the area.

Within the framework of rural tourism, farm tourism enterprises are more closely related to agriculture than other rural tourism operations. Clarke (1996) claims that there is a difference between tourism on farms and farm tourism. When accommodations are divorced from the farm environment then it is 'farm tourism', while in 'tourism on the farm', the farm environment and its essence are incorporated into the product (e.g., participation in the farm work, picking your own produce).

Busby and Rendle (2000) describe the transition from 'tourism on the farm' to 'farm tourism'. This transition occurs as farmers who become engaged in tourism on their farms slowly divorce themselves from agricultural activities. With this transition, the farm activities are no longer a necessary component. Clough (1997) extends this argument further by claiming that most of the visitors would be happy not seeing the working farm. These observations lead to the conclusion that there is a range of links between agriculture and tourism and that these links are getting weaker, especially from the visitor's point of view.

In summary, the relations between the two industries have been analyzed in the literature; most studies have explored the effects of rural tourism on the agricultural industry. There is, however, a lack of rigorous economic analysis studying the mutual effects within the same multi-product firm, i.e. a firm that manufactures agricultural products as well as tourism services.

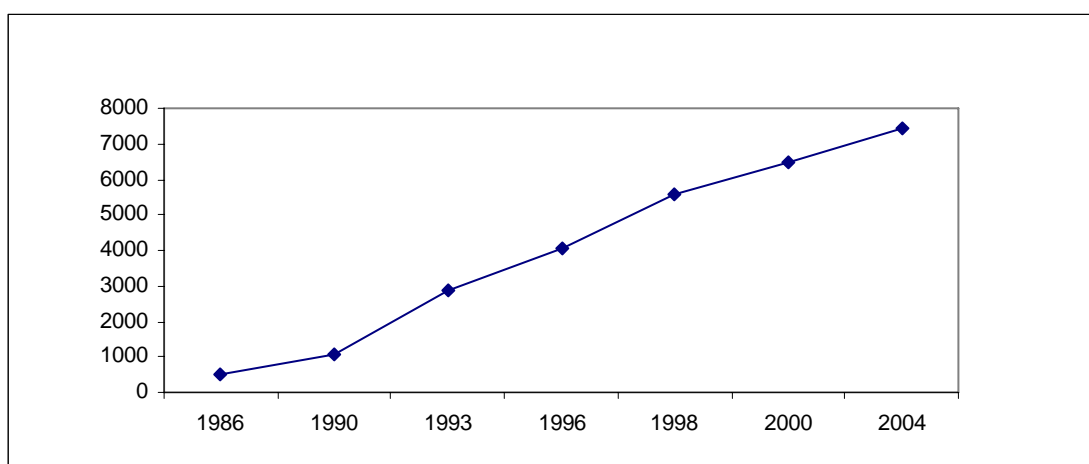
3. Rural Tourism in Israel

3.1 Background

Growth

Rural tourism is the most rapidly growing economic activity in rural areas of Israel. It took off towards the end of the 1980s (Fleischer and Pizam, 1997). Until then, residents of rural communities were engaged mainly in agricultural and off-farm activities. With the worsening of the terms of trade in agriculture and the resultant decline in real income, many farmers, similar to their counterparts in Europe and North America, started to look for an alternative source of income. As a result, many rural communities turned to rural tourism. Since its inception, the industry has been continuously growing, exhibiting an average annual growth rate of 15% over 20 years. By the year 2004, the rural accommodations industry accounted for 18% of the total domestic tourism market in terms of room nights. It consisted of 8,000 accommodations units, situated in about 210 villages: semi-cooperatives (Moshavim) and collectives (Kibbutzim), and non-agricultural rural towns. These spread out from the Lebanese border in the north to the Red Sea in the south. The increase in the number of accommodations units in the last two decades is depicted in Figure 3.1.

Figure 3.1: Number of Rural Accommodations Units in Israel over 18 Years



Source: Fleischer, Engel and Tchetchik, 2005

Following the increase in accommodations units was the establishment of attractions in the rural space such as restaurants and galleries, and agro-tourism and

other leisure activities. Data gathered by the Ministry of Agriculture indicates that by the end of 1999, there were more than 2,350 tourist attractions in the rural periphery.

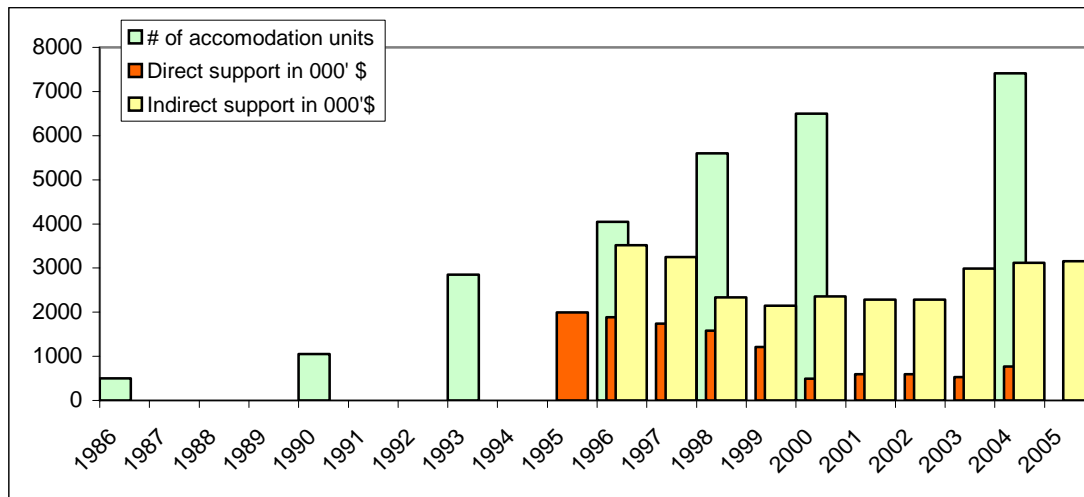
The rural accommodations product has gone through some drastic changes during its existence. In the first stages, existing buildings in Kibbutzim and Moshavim were converted to serve as accommodations units. These units were very basic facilities, just adequate for accommodation. The season was short with an average annual occupancy of 80 to 90 nights (this reflects the fact that demand consisted mainly of families with children, confined to holiday/vacation periods). With the years, new types of units began appearing. These were mostly log cabins, highly luxurious and accessorized with facilities such as air-conditioning, TV, VCR, Jacuzzi, fireplace, etc. Extras such as wines, natural juices, chocolates and pastries started being served as part of the hospitality. As a result, prices have increased, the high season has expanded and new segments have entered the market. The Internet has been supplying an ideal, low-cost marketing channel for the firms' owners. It should be noted that the rural accommodations industry in Israel relies mainly on domestic tourists; it has not penetrated the incoming tourism market. Dependency on the domestic market implies a limited potential market. In this case, firms must rely heavily on repeat visits. This, in part, has driven new entrants to the market to position their units up-market, which has resulted in vast product differentiation.

Government Support

In the early stage of development, the Jewish Agency was the only organization giving support to the rural tourism industry. With the expansion of the industry and the recognition of its importance, the Ministry of Tourism started supporting it in 1993. Today the industry is regulated and supported by the ministries of Tourism and Agriculture as well as other non-governmental organizations. Three main support programs are being employed: a tourism village program, a small-business loan and guarantee fund, and a capital support fund for farmers. The Ministry of Tourism also operates "Tourism Incubators" jointly with the Jewish Agency in peripheral areas. Within these Incubators, business advisory services and business accompaniment are offered to rural tourism operators, as well as professional skills training. The Incubators cover 75% of the training costs and the operators pay the rest. Figure 3.2 presents the development of total funds, budgeted by the Ministry

of Tourism to support rural tourism. The support budget is divided into direct support (a small-business loan and guarantee fund) and indirect support (a tourism village program).

Figure 3.2: Ministry of Tourism’s Support to Rural Accommodations



3.2 Detailed Description of the Industry

The following section describes the rural accommodations industry in Israel, based on a dataset collected by a cross-sectional survey. The survey was conducted in the year 2000 and provided the database for a Ph.D. dissertation (Tchetchik, 2006). Updates and completions were taken from the Israeli rural tourism survey of 2004 (Fleischer et al., 2005).

The following figures provide descriptive statistics of the rural accommodations industry. Averages are given followed by the standard deviations in brackets. Differences among regions’ averages are stated only where significant. Differences in averages were tested by T-test with a confidence level of 5%.

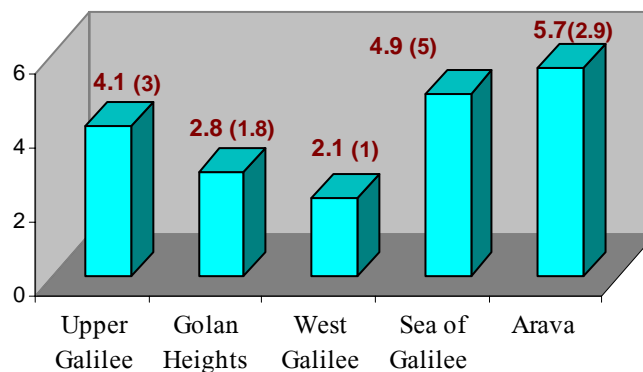
Firms

The typical firm consists of 3.6 (2.8) accommodations units. Regional differences exist: the Sea of Galilee’s average is the highest while the Western Galilee’s average is the lowest (Figure 3.3).

Businesses have been in existence for 6.3 (5.4) years on average: firms in the Upper Galilee, being the pioneers in rural accommodations, average 7.7 years while in the Western Galilee, rural accommodations is a relatively new phenomenon and hence the average firm has been around for 2.5 years.

As already mentioned, the industry is moving toward highly accessorized luxury units. The establishment of new log cabins reflects this trend: 22% (39%) of the sample's units are log cabins. Regional differences are found, as can be seen in Figure 3.4: specifically, in the Western Galilee, the ratio of log cabins is the highest, 55%, while in the Upper Galilee region, only 9% are log cabins. These regional differences reflect the fact that while in the former region, rural accommodations are relatively new and positioned for the up-market, in the latter region, rural accommodations were established earlier on and are thus characterized by more standard units. This is also reflected in the investment in luxury elements in the unit (e.g. Jacuzzi, sauna, VCR, etc.). The average firm invested NIS 5,540 (4,520) per unit. As can be seen in Figure 3.5, rural accommodations in the Western Galilee are the most luxurious, with an average of NIS 7,300, while units in the Sea of Galilee are the least luxurious, with an average investment of NIS 3,100.

Figure 3.3: Average Number of Units per Firm by Region (S.D. in brackets)



Another characterization of the rural accommodations relates to the service provided by the operators. The variable “Amenities” refers to the number of “extras” the guests are provided with as part of the hospitality. These include natural juices,

homemade jams and pastries, wines, chocolates, bath oils, flowers, etc. The average firm's offer is 2.7 (2.3) amenities per unit. The highest amenity level is found in the

Figure 3.4: Average Share of Log Cabins per Firm by Region (S.D. in brackets)

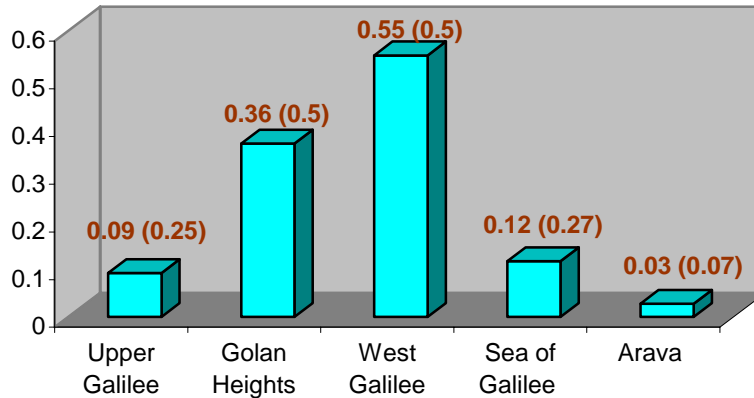
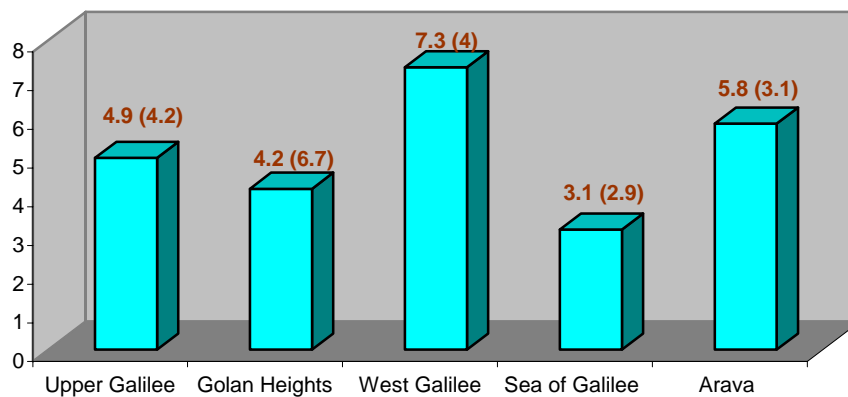


Figure 3.5: Average Investment in Luxury Elements by Region (S.D. in brackets)



In many rural accommodations, the firm's operator offers leisure activities, such as guided tours of the surrounding area, jeep trips, bicycle rides, body massages, etc. (These activities are not included in the accommodations price and are charged separately.) While the sample's maximum is five activities, the average firm offers one (0.9) leisure activities. Another kind of leisure activity offered is agro-tourism, such as guided tours of the agricultural area, picking your own fruit, taking part in livestock activities, etc. Operators, who are also farmers, offer agro-activities and thus relate the accommodations more closely to agriculture. The average among farmers is 0.5 (0.7) agro-activities.

A fourth element of service is the “Personal Touch.” It reflects the extent to which firms’ operators demonstrate warm hospitality toward their visitors. For example, do they initiate welcoming conversation with their guests upon arriving, do they show concern for their guests’ satisfaction during the hospitality and at the end of their stay, etc. The personal touch variable sums these elements. While the maximum possible value is 9, the average firm’s score is 7.33 (0.95). This implies warm hospitality among Israeli rural accommodations operators. No significant differences were found among regions.

Since the external environment of the accommodations is important in determining the demand for rural accommodations, it is described with a focus on the surrounding scenery, and on the attractions in the village and in the area. The landscape viewed from the accommodations unit is described using two dummy variables. The first, “Open View,” specifies whether there is an open view from the unit. The other dummy, “Spectacular View,” is defined as a completely unobstructed open view of nature, such as the sea, mountains, forests, or agricultural fields, without any interference from man-made constructions: 85% of the firms have open views of landscapes from the units, while regionally, the Upper Galilee’s average is the highest at 92%, and the Arava’s average is the lowest, only 33%. As many as 46% of the firms enjoy the positive externality of a spectacular view.

Tourist attractions in the village include restaurants, river-rafting, horseback-riding, galleries, museums, etc. The average number of attractions in a village is 5.8 (5.1), while the most tourism-oriented village enjoys the presence of 16 attractions. As can be seen in Figure 3.6, villages in the Upper Galilee area are richer in attractions, while villages in the vicinity of the Sea of Galilee have only one attraction on average.

The tourist attractions in the surrounding area reflect an important regional influence on the demand for rural accommodations. Unlike full-resort accommodations, people stay at rural accommodations as a base for trips in the vicinity. Regional attractions include national parks, natural reserves, museums, archeological sites, etc. Focusing on attractions of great interest (as classified by the Israeli Karta Tourism Guide), it is found that on average there are 24.2 (9) attractions per region. Figure 3.7 demonstrates the regional distribution of special attractions. It reveals that the Western Galilee is the most affluent with special attractions whilst the Arava region is the least affluent with them.

Figure 3.6: Average Number of Attractions in Settlement by Region (S.D. in brackets)

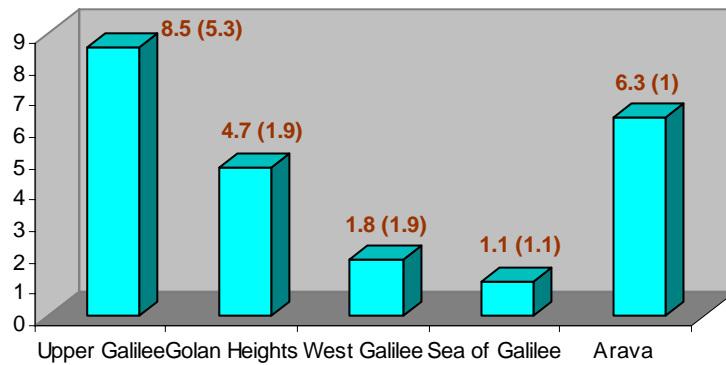
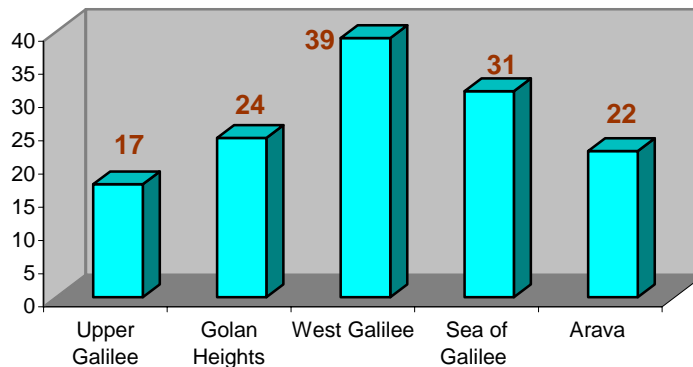


Figure 3.7: Number of Special Attractions by Region



Owners

Having described the internal and external environments of the accommodations, we now characterize their operators. As mentioned earlier, the rural accommodations business is typically a small-scale family business run by husbands and wives: 42% of the operators are also active farmers, 12.12% of the operators used to practice farming and left it once they got involved in rural accommodations; 40% of the males engaged in the industry also work off-farm/house at a 2/3 to full-time job, and 45% of the females work 2/3-time jobs off the farm/house.

Turning to the operators' education and managerial skills, it is found that on average, the educational level per household is of post-high school. Of the sample's

operators (either husband or wife), 17% have managerial skills, that is, they have occupational experience as managers. Comparing regionally, Arava's operators were found to have no managerial experience at all.

3.3 Economic Indicators

Tchetchik et al. (2006) estimated various economic indicators of the rural accommodations industry. This section presents these results starting with per-firm economic indicators, then with a comparison to hotel accommodations and the regional importance of rural tourism, and ending with an industry-level account.

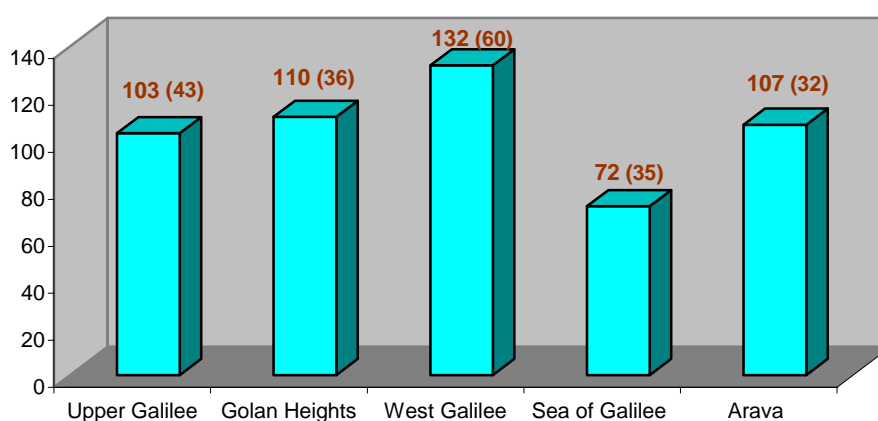
Per-Unit Performance

In this section, all figures are in 1999 NIS. Regional differences are stated for significant differences only.³

Occupancy

Average annual occupancy is 107 (48) nights per unit, i.e. a 30% occupancy rate. Regional differences were found: in the Western Galilee, occupancy is highest, whereas the Sea of Galilee's average is the lowest.

Figure 3.8: Average Annual Occupancy per Unit by Region (S.D. in brackets)

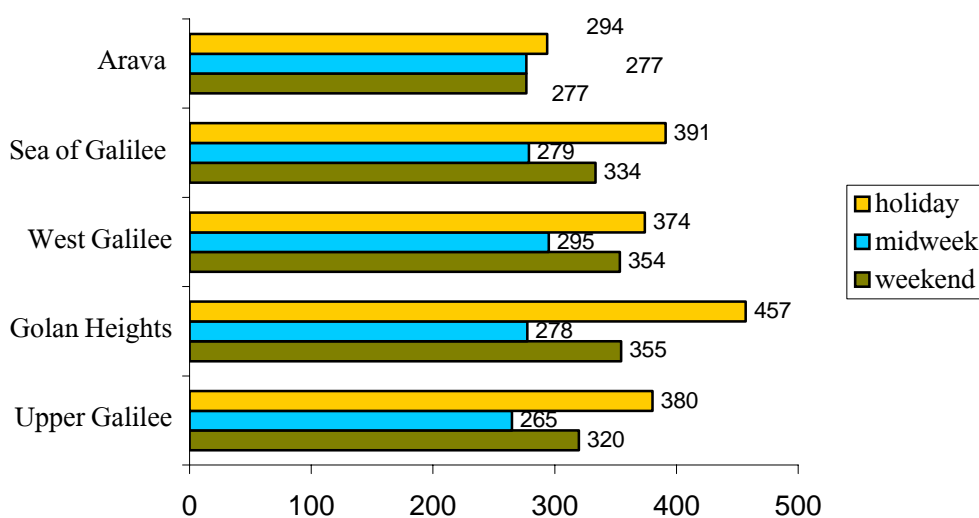


³ Average differences were tested by T-test, at a confidence level of 5%.

Prices

Prices of rural accommodations are high during the high season, lower on off-season weekends and lowest on off-season mid-week days. Average weighted price is NIS 300 (69) per night. In Figure 3.9, the differences among prices in the different seasons as well as among regions are illustrated. The weighted average price in the Western Galilee is the highest, whereas the Sea of Galilee's weighted average price is the lowest.

Figure 3.9: Average Price per Unit by Region (S.D. in brackets)

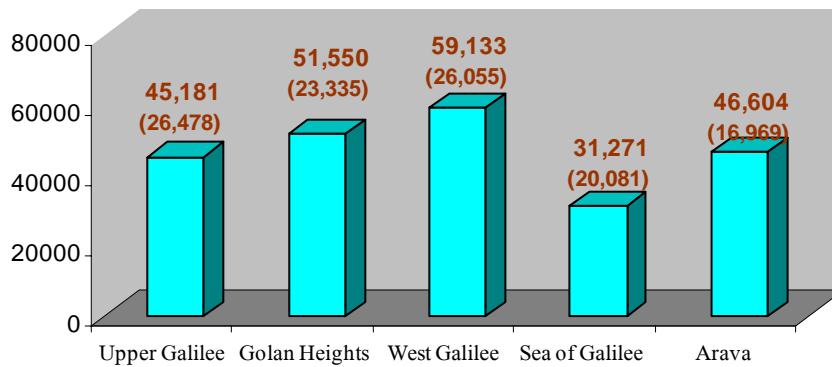


Revenue

The average annual revenue per unit is NIS 47,465 (26,222). This includes revenue from accommodations and from charges for extra breakfasts. Thus, the average annual revenue for a firm operating 3.6 units is NIS 171,400.

Not surprisingly, with the highest occupancy and prices, the annual average revenue in the Western Galilee is the highest, and in the Sea of Galilee, with the lowest occupancy and prices, the lowest.

Figure 3.10: Average Annual Revenue per Unit by Region (1999 NIS, S.D. in brackets).



Capital

Seventy-three percent of the units were originally built for use as rural accommodations; the average cost for these units is NIS 96,500, including construction, facilities and furnishing. The other 27% were built for other purposes (such as farm storage) and were converted for use as accommodations. The average cost of conversion is NIS 48,000. Weighting the cost of new and converted units gives an investment of NIS 81,875 on average. Of the operators, 35.4% took active part in the construction and conversion work. Accounting for the value of owners' work⁴ brings the average investment in an accommodations unit to NIS 84,605. Additional money was invested in facilities outside the unit such as dining room, children's facilities, lobby, swimming pool, etc.; 25.3% of the operators reported investing in such facilities, at an average investment of NIS 73,140 per business. Taking all of the above costs into account yields an average investment of NIS 92,400 (43,000) per unit. This is equivalent to NIS 2,740 per square meter. No regional differences were found.

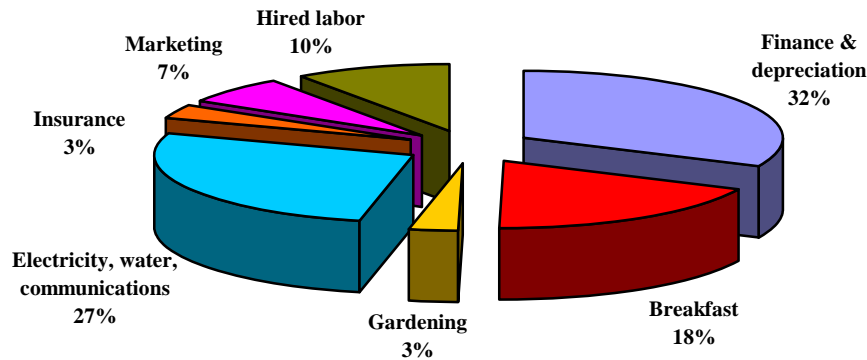
Operating Costs

Being a small family business based on environmental amenities, owner labor and low levels of service, operating costs in rural accommodations are relatively low. Most of the costs data was received from the survey, and completions for expenses such as telephone, water, and electricity were obtained from the "Galilee Development Authority" which gathered accurate annual costs for several

⁴ The average value of owners' work was estimated at NIS 20,690 per firm.

accommodations units in the Upper Galilee. The average total annual expenditure is NIS 13,800 per unit (not including own-labor worth). This includes variable costs and fixed costs, i.e. finance and depreciation.

Figure 3.11: Distribution of Total Costs per Unit



Labor

As illustrated in Figure 3.11, hired labor accounts for a small share of the total costs. The average is 86 hired labor hours, and 507 own labor hours, i.e. 1,825 own labor hours annually for the average firm. Assuming that a full-time job accounts for 2,260 hours annually, own labor in rural accommodations constitutes an 80% position on average, where hired labor per firm constitutes a 14% position. Whereas owner labor is uniquely devoted to managing, taking reservations and marketing, hired labor is devoted to tasks such as cleaning, gardening and maintenance.

Profits and Added Value

Calculating the profits in the rural accommodations industry in Israel reveals high profit margins and a high rate of return on investment. Table 3.1 presents the per-unit calculation for the year 1999.

Profits (after depreciation and finance expenses) account for 71% of revenue and constitute a 36% return on investments. If accounting for own labor costs, profit rate falls to 20% of revenue and constitutes a 10.3% return on investment.

Table 3.1: Per Unit Calculation for 1999

	In 1999 NIS
Average annual revenue	47,465
Average annual added value	39,443
Average annual operative profit	38,083
Average annual profit before tax ⁽¹⁾	33,652
Annual average profit before tax ⁽²⁾	9,652
Average capital investment	92,400
Average annual cost	13,800
from which hired labor cost	1,360

(1) After depreciation and finance expenses

(2) After depreciation, finance expenses and estimated own labor costs

Industry Level Performance

Table 3.2 provides aggregative figures for the industry's performance. It indicates that while the number of accommodations units has increased by 32%, aggregate revenue has increased by 52%. This is explained by the increase in average occupancy rate (by 27%), and the increase in real prices. The fact that the rural accommodations market is exclusively domestic is reflected in the relatively small contribution of rural accommodations to the entire tourism product.

Table 3.2: Industry Level Account (thousands of \$ US 2005)

	1999	2004 ⁽¹⁾
Number of accommodations units	6,156	8,105
Average occupancy rate	30%	38%
Aggregate annual revenue	75,955	115,419
Aggregate added value	63,118	95,912
Aggregate wages	2,176	3,306
Return to equity and owners' labor	60,942	92,605
% added value in agriculture added value	2.2	6.7
% added value in tourism added value	11.6	10

(1) Source: Fleischer et al., 2005

To gain additional insight into the industry's technology, it is instructive to compare the economic performance of a typical rural accommodations unit to the average hotel unit. Table 3.3 presents such a comparison.

Table 3.3: Comparison with the Hotel Industry in 1999 NIS

	Rural accommodations (per unit)	Hotel industry ⁽¹⁾ (per room)
Occupancy rate	30%	61.8% ⁽²⁾
Annual revenue	47,465	95,400
Added value	39,443	52,800
Employees (annual labor per unit)	0.14	0.69
Wages	1,360	38,500
Return to equity and owners' labor	33,652	10,800

(1) Source: Statistical Abstract of Israel 2000, no. 51

(2) Of which half is the result of incoming tourism

While occupancy rate and revenues in the hotel industry are twice as large, the value added in the hotel industry is only 30% larger than in the rural accommodations. Moreover, when turning to profits (return to equity), the ranking is reversed. The return to equity in rural accommodations is 1.53 times that in the hotel industry. These differences are explained by the differences in hospitality technology. Hotel hospitality requires many services beyond the room itself. Examples are facilities, such as a lobby, swimming pool, and dining room. These amenities are replaced in rural hospitality by the rural environment, the farmer's garden, the farm landscape, etc., the latter being byproducts of farming and the household residence.

Considering that an average investment in a rural accommodations unit is \$24,000, significantly less than the capital requirements for an average hotel room (between \$80,000 and \$100,000), the implication is that the rate of return to equity and owner's labor in the rural accommodations industry (approximately 37%) is much larger than the return rate in the hotel industry (approximately 13%). This provides an explanation for the rapid growth of the rural accommodations industry.

Importance to Regional Economy

As shown by the above indicators, the revenues from rural accommodations make up only a small share of the total agricultural and tourism aggregate products. However, in the northern regions of Israel, rural accommodations has become an important source of livelihood. As can be seen in Figure 3.12, the average participation rate ranges between 6 and 10% of the total household population. For those families who operate rural accommodations businesses, the profits from tourism present an important source of income.

Figure 3.12: Participation in Rural Accommodations of Rural Population

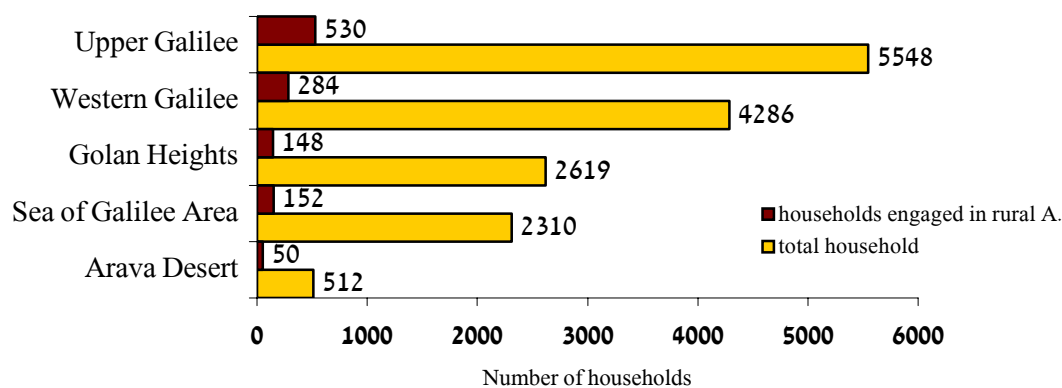


Table 3.4: Income Estimates for Operators of Rural Accommodations in 1999

NIS

Income source	Farmers		Non-Farmers	
	<u>Annual income</u>	<u>% of income</u>	<u>Annual income</u>	<u>% of income</u>
Rural tourism	131,627	50.7%	117,380	60.7%
Agriculture ⁽¹⁾	64,455	24.8%		
Off-farm occupation ⁽²⁾	63,376	24.4%	75,945	39.3%
Total family income	259,459	100.0%	193,325	100.0%

(1) Norms of profit per unit of farming activity—Ministry of Agriculture and Rural Development.

(2) Wages by occupation—Central Bureau of Statistics, Statistical abstract of Israel 2000.

As can be seen in Table 3.4, tourism income makes up 50 and 60% of agricultural and non-agricultural households' incomes, respectively, while farm profits and wages from off-farm jobs are only secondary sources of the household's livelihood.

3.4 Market Structure and Policy Implications

Recognizing a dearth of rigorous economic analyses and accounting for the industry's special features, hedonic prices and discrete-choice models were employed to analyze the rural accommodations industry by Fleischer and Tchetchik (2005) and Tchetchik et al. (2006). Fleischer and Tchetchik (2005) estimated a linear hedonic price function. They divided the attributes of rural accommodations into four groups: (1) attributes of the unit itself, (2) attributes of the owner, (3) the level of tourism activity, (4) agricultural activities. The units are characterized by their luxury level, amenities, size, and the serving of breakfast. The owners' service orientation is an important characteristic of rural accommodations due to the personal touch that characterizes this type of hospitality. The level of tourism orientation is reflected in the number of tourism activities being offered on the premises, the existence of a tourism village infrastructure and the number of tourist attractions in the surrounding area. Agriculture is reflected as an attribute of the unit if the visitors are exposed to a working farm and/or open green rural landscape. The estimation results revealed that of the four variables that reflect the attribute of the unit, three are positive and significant. For each increase in NIS 1,000 in the luxury component, the hedonic price increases by NIS 4.84. Visitors are willing to pay NIS 28 more for log cabins and NIS 0.84 for every additional square meter. Tourism orientation of the accommodations has the highest impact on the hedonic price. This is true at the unit level, at the village level and at the regional level. The incremental contribution of activities and attractions to the price fades with increases in distance. For each increase in activity or number of attractions at the unit location, the price increases by NIS 9.7, at the settlement level by NIS 5.4 and in the surrounding area by NIS 2.2. The public investment in the planning and infrastructure of a tourism village pays off and visitors will pay NIS 20 more for this attribute. The rest of the accommodations attributes were not found significant.

Vanslebrouck, Huylenbroeck and Meensel (2005), conducted a similar study in the Belgian rural tourism industry. The results indicate that the higher the number of people that can stay in the same room, the lower the price per person and per night. Quality and provision of catering have positive effects on the price of the accommodations. Most of the geographic characteristics do not have a significant influence on the price. Among the environmental attributes, five are clearly significant. Accommodations price appears to be negatively influenced by fodder crop production, which can be related to intensive livestock farming and the proportion of forests in the area. On the other hand, the price is positively correlated with permanent grassland. The latter result was found in similar studies in France (e.g. Le Goffe and Delache, 1997).

Tchetchik et al. (2006) adopted a structural approach to estimate equilibrium in the rural accommodations industry. This approach allowed a distinction between the influence of agriculture on production cost and its effect on consumer preferences. Accounting for the vast product differentiation and the heterogeneity in consumer tastes and technologies, they applied a discrete-choice framework with product differentiation to model the rural accommodations industry in Israel and to jointly estimate the effect of lodging and farm characteristics on consumer preferences and firms' costs. In particular, they applied the nested-logit model which was suggested by McFadden (1978) and Cardell (1997), and was successfully employed for the analysis of related issues, such as demand for recreation and fishing sites (e.g. Hauber and Parsons, 2000). However, while the literature on recreation demand focuses mainly on consumer preferences, the application of Tchetchik et al., which follows Berry (1994) and Fershtman et al. (1999), allows a joint estimation of both the demand and cost parameters, using only aggregated firms' level data. The results of the model's estimation revealed an oligopolistic markup that averages 62% of the price. It was also found that relative to the perfect competition benchmark, oligopolistic conduct leads to a 70% reduction in the number of tourist nights in rural accommodations and a welfare loss of 46%. Decomposing the markup reveals that the most important source for the price-cost margin is vertical differentiation, contributing 50% of the markup. Second in importance are horizontal differentiation and lack of information. The rest is attributed to government regulations that restrict supply.

Evidence of technological synergy in the joint production of farming and rural hospitality was also found. For instance, the estimated regression shows that the cost

per night for a business located on a flower farm may be as much as 42% lower than a tourism business without a farm. The sources for this synergy are several intrinsic characteristics of an active farm, such as the flexibility of farmers with their time and the ability to adjust their work schedule to meet the needs of the accommodations business. Another characteristic is the ability to employ idle hired labor for tasks such as cleaning, gardening and maintenance.

In the presence of synergy, exits of farmers can adversely affect the rural hospitality industry. Thus, agricultural-support policies that are intended to preserve small family farms may indirectly benefit the rural tourism industry.

The estimated parameters were employed to simulate the industry equilibrium under a variety of governmental policies and market structures. Presently, the industry is heavily regulated and government restrictions create a barrier to entry and development. The simulation results showed that the industry has growth potential and that the government may catalyze growth by lifting regulations and providing information. The government may also beneficially intervene in the market by investment subsidization and provision of local public goods, such as parks, promenades and improved transportation facilities.

Under these circumstances, the rural accommodations industry has a real potential for growth and for becoming an important source of livelihood in the rural economy.

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